

The Serial and Sinking Fund Debentures and Rights referred to herein are being offered in Canada, but not in the United States of America. This circular is not, and under no circumstances is to be construed as, an offering of any of these issues for sale in the United States of America or the territories or possessions thereof or an offering to any resident of the United States or a solicitation therein of an offer to buy any of these issues.

## NEW ISSUE

# \$13,000,000 Gatineau Power Company

(Incorporated under the laws of the Province of Quebec)

## Serial and Sinking Fund Debentures

To be dated June 1, 1938

Maturity	Coupon Rate	Amount
June 1, 1939	3%	\$600,000
June 1, 1940	3½%	\$600,000
June 1, 1941	4%	\$600,000
June 1, 1942	4½%	\$600,000
June 1, 1943	4½%	\$600,000

**June 1, 1949 5% Sinking Fund Debentures \$10,000,000**

(Stock Subscription Rights will be given with 5% Sinking Fund Debentures)

To be issued under a Trust Indenture in favor of Montreal Trust Company as Trustee.

Principal and half-yearly interest (June 1 and December 1) and redemption premium, if any, payable in lawful money of Canada at the principal office of the Company's bankers in Montreal, or at the option of the holder, in any one of the following cities: Halifax, Toronto, Winnipeg and Vancouver. Redeemable at the option of the Company at any time, on thirty days' prior notice, as a whole or in part: the Serial Debentures of each maturity at 100% of the principal amount plus a premium in case of any such Debentures redeemed more than twelve months prior to their maturity of ½ of 1% for each full twelve months' period between the redemption date and their maturity; the 5% Sinking Fund Debentures at 102½% of the principal amount if redeemed on or before June 1, 1939; and at 102% if redeemed thereafter on or before June 1, 1941; and at 101½% if redeemed thereafter on or before June 1, 1943; and at 101% if redeemed thereafter on or before June 1, 1945; and at 100½% if redeemed thereafter on or before June 1, 1947, and at 100% if redeemed thereafter prior to maturity; in the case of both Serial and Sinking Fund Debentures, with accrued interest to the date of redemption. Serial Debentures of each maturity will be available in coupon form in \$1,000 denomination and in fully registered form in such denominations as the Directors may authorize. The 5% Sinking Fund Debentures will be available in coupon form in denominations of \$1,000 and \$500 and in fully registered form in denominations of \$1,000, \$10,000 and authorized multiples thereof. Coupon and fully registered Debentures of each maturity, respectively, and the several denominations thereof will be interchangeable.

### Sinking Fund

Serial Debentures will mature during the years 1939 to 1943, inclusive, in annual instalments of \$600,000 principal amount and the Trust Indenture will provide for a sinking fund commencing in 1944 for the retirement of \$3,600,000 principal amount of the 5% Sinking Fund Debentures prior to their maturity—\$600,000 on June 1, in each of the years 1944 to 1948 inclusive and \$600,000 on March 1, 1949.

The Trust Indenture will further provide that such sinking fund requirements may be satisfied by the surrender by the Company to the Trustee for cancellation of 5% Sinking Fund Debentures theretofore acquired by the Company to be taken at their principal amount or by payment in cash or in part by one method and in part by the other. Cash in the hands of the Trustee shall be applied in the redemption of 5% Sinking Fund Debentures in accordance with the terms of the Trust Indenture. Until selection by the Trustee of Sinking Fund Debentures for redemption any cash in the sinking fund may be withdrawn by the Company against surrender of an equal principal amount of 5% Sinking Fund Debentures. The Company will reserve the right to anticipate sinking fund requirements either in Debentures or in cash and to receive credit therefor in subsequent years.

The total principal amount of Debentures, therefore, to mature in instalments and calculated to be retired through the sinking fund prior to June 1, 1949, will be \$6,600,000. The amount of Sinking Fund Debentures so to be retired is subject to increase as indicated in the paragraphs immediately following.

### Stock Subscription Rights

The Company is giving, as an incident to the making of this issue, the right to subscribe, at any time prior to December 31, 1942, at \$10.00 per share for Common Shares of the Company on the basis of 10 shares in respect of each \$1,000 principal amount of the 5% Sinking Fund Debentures. Reference thereto will be made in or endorsed upon the Trustee's Interim Certificates for the 5% Sinking Fund Debentures and bearers of such Certificates will be entitled to exercise this right, in respect of the 5% Sinking Fund Debentures represented by such Certificates respectively, upon surrender of their Certificates for stamping and payment of the price of the Common Shares to the Company's Transfer Agent. Each definitive 5% Sinking Fund Debenture will have attached, when delivered in exchange for the Trustee's Interim Certificates (except Certificates so stamped); a detachable Stock Subscription Warrant evidencing such right of subscription and entitling the bearer, on surrender of such Warrant and payment of such price to the Company's Transfer Agent, to subscribe for said shares at any time prior to December 31, 1942.

The Trust Indenture will provide that any moneys received from the exercise of these rights shall be deposited with the Trustee but may be withdrawn by the Company in whole or part against the surrender for cancellation of an equal principal amount of 5% Sinking Fund Debentures and that any part of such moneys not so withdrawn within six months of their receipt by the Trustee (or earlier if the Company so requests) shall be applied by the Trustee to the retirement of 5% Sinking Fund Debentures in the same manner as such Debentures are to be retired through operation of the sinking fund.

Provision will be made in such Warrants with a view to protecting and preserving the rights evidenced thereby in the event that, prior to December 31, 1942, the Company's Common Shares are consolidated or subdivided or the Company is consolidated, amalgamated or merged with another company or the Company transfers its assets as an entirety or substantially as an entirety to another company and is then wound up or distributes its assets in whole or in part.

### Covenants

The Debentures will be direct obligations of the Company but will not be secured by any hypothec, mortgage, pledge or other charge. The Trust Indenture will, however, contain restrictive covenants as hereinafter appears.

Trustee: Montreal Trust Company.

**PRICE: 5% Sinking Fund Debentures, maturing 1949,  
98 and accrued interest, to yield approximately 5.25%**

**The Serial Debentures maturing 1939 to 1943, inclusive, have been sold.**

We offer these Debentures, if as and when issued and accepted by us, subject to the approval of Messrs. Blake, Lash, Anglin & Cassels, of Toronto, Ont., Solicitors on behalf of the Underwriters, and of Messrs. Brown, Montgomery & McMichael, of Montreal, P.Q., Solicitors of the Company, (whose advice will be relied on by the Underwriters and their solicitors on all matters governed by the laws of the Province of Quebec) as to the Trust Indenture to be executed and all other legal details in connection with the issue of the Debentures and Stock Subscription Rights. The above named Solicitors for the Underwriters acted on behalf of the Company in connection with certain of the power contracts made with respect to the sale of power to The Hydro-Electric Power Commission of Ontario.

Subscriptions will be received subject to rejection or allotment in whole or in part, and the right is reserved to close subscription books at any time without notice.

It is expected that Trustee's Interim Certificates will be ready for delivery on or about June 27, 1938.

# DOMINION SECURITIES CORPORATION LIMITED

TORONTO MONTREAL WINNIPEG VANCOUVER NEW YORK LONDON, ENG.

15 King Street West, Toronto

The statements contained herein are based upon information which we believe to be reliable, but are in no event to be construed as representations by us.



The following information is contained in a letter of Mr. G. Gordon Gale, President of Gatineau Power Company, on which we have relied in connection with these Serial and Sinking Fund Debentures:

### The Company

Gatineau Power Company (hereinafter referred to as "the Company") was incorporated in 1926, under the laws of the Province of Quebec, and is primarily engaged in the business of generating, transmitting, distributing and selling electricity. The Company's hydro-electric power plants (all in the Province of Quebec except as otherwise noted) and their capacities are shown in the following table:

Hydro-Electric Plants:	Location	Installed Capacity
Paugan.....	Gatineau River.....	238,000 h.p.
Chelsea.....	Gatineau River.....	136,000 h.p.
Farmers.....	Gatineau River.....	96,000 h.p.
Corbeau Rapids.....	Gatineau River.....	2,500 h.p.
Bryson.....	Ottawa River.....	51,400 h.p.
Chaudiere No. 2.....	Ottawa River.....	22,500 h.p.
Chaudiere No. 1.....	Ottawa River.....	14,100 h.p.
Kipawa.....	Gordon Creek.....	25,050 h.p.
Bell Falls.....	Rouge River.....	7,200 h.p.
Rawdon.....	Ouareau River.....	2,300 h.p.
Six Small Plants.....	Petite Blanche, Blanche, North Nation, and North Rivers.....	5,084 h.p.
Grand Falls.....	Saint John River, N.B.....	80,000 h.p.
Total Hydro-Electric Plants.....		680,134 h.p.
Steam Power Plant:		
Dalhousie.....	Dalhousie, N.B.....	9,000 h.p.
Total all Plants.....		689,134 h.p.

The Company has ordered equipment for an additional 34,000 h.p. 60-cycle unit for installation at the Chelsea Plant later in 1938. The cost of this installation is being met out of current cash funds.

All of the above plants are located on land which is owned in fee (i.e., complete ownership) or held under lease from the Province of Quebec. In each case such ownership or lease, together with the approvals granted under the general laws of the Provinces of Quebec and New Brunswick, carries with it the right to the use of the water in the respective rivers for the development of power. The earliest expiry date of any of such leases is in 1988.

The works connected with the two water storage reservoirs built by the Company on the upper reaches of the Gatineau River (Mercier completed in 1927 and Cabonga completed in 1929) have a combined utilizable capacity of over 140,000,000,000 cubic feet, which is sufficient to make the Gatineau one of the most completely regulated rivers of its size in North America. These two reservoirs are owned by the Government of the Province of Quebec, and operated by the Quebec Streams Commission, an instrumentality of such Government, under contracts (extending for at least forty years from the respective dates upon which the storage of water commenced) between the Company and the Government of the Province of Quebec, by the terms of which the flow of the Gatineau River at Chelsea is regulated for the benefit of water power owners and lessees on the river.

The bulk of the Company's revenue is derived from the sale of power under contract in substantial blocks to The Hydro-Electric Power Commission of Ontario (for use in its Niagara and Eastern Ontario Systems), Canadian International Paper Company (chiefly for motive power and the generation of steam at its Gatineau newsprint mill and its Kipawa sulphite mill and for the generation of steam at its Hawkesbury sulphite mill), The Ottawa Electric Company, The E. B. Eddy Company, Limited, and Canada Cement Company, Limited. In the Province of New Brunswick electricity is sold to Fraser Companies Limited, electricity and steam to New Brunswick International Paper Company, and electricity to the Town of Dalhousie and to the New Brunswick Electric Power Commission for distribution east of Dalhousie and to the town of Grand Falls. The Company also owns and operates a distribution system in the Province of Quebec serving about 21,000 retail customers.

Of the Company's 1937 operating revenue over 35% represented sales to The Hydro-Electric Power Commission of Ontario, and over 80% represented sales of power under long term wholesale contracts none of which expires before 1956. The two principal contracts with the Commission run until 1970.

The Company has four operating subsidiaries. Gatineau Electric Light Company, Limited, owns and operates a distribution system in the Province of Ontario serving more than 1,300 retail customers and also sells electricity at wholesale to two municipalities and to the Hawkesbury sulphite mill of Canadian International Paper Company. Gatineau Transmission Company owns and operates fifty-five circuit miles of high tension steel tower transmission lines located almost wholly in the Province of Quebec, four circuits crossing the boundary into Ontario. Saint John River Storage Company operates the Temiscouata storage dam located on the Madawaska River in the Province of Quebec. Gatineau Bus Company, Limited, owns and operates motor busses in and about Hull, Quebec. In addition the Company owns 49% of the outstanding shares of The E. B. Eddy Company Limited.

The Provincial Electricity Board of the Province of Quebec has general power of supervision, regulation and licensing of distributors: namely, all persons, firms or corporations producing, selling or distributing electricity in the Province. The Board has issued to the Company and to Gatineau Transmission Company, as distributors operating in the Province of Quebec, provisional licenses expiring December 31, 1938, similar to those which it has issued to all other distributors. The policy of the Board with respect to the renewal of provisional licenses and the issue of licenses has not yet been announced.

### Power Output

The total output of the Company, including small amounts of purchased electricity, in each of the years 1933 to 1937, was as follows:

	Kilowatt Hours
1933.....	2,698,984,009
1934.....	2,765,245,851
1935.....	2,852,717,909
1936.....	2,771,310,735
1937.....	3,032,675,854

The foregoing figures include large quantities of electricity sold for the production of steam at paper and sulphite pulp mills of affiliates (Canadian International Paper Company and New Brunswick International Paper Company), and increased deliveries to them account, for the most part, for the extent to which production has been maintained since 1935, notwithstanding reduction in the deliveries to The Hydro-Electric Power Commission of Ontario.

The total output of the Company for the year ended December 31, 1937, amounted to 3,032,675,854 kilowatt hours which is equivalent to a load factor of approximately seventy per cent. (70%) on the consolidated peak load of 661,475 horse power established in 1937.

During the last five years the Company has made no major additions to its generating plants and transmission lines, but has extended its distribution lines to additional urban and rural customers throughout the territory it serves, and has acquired additional flowage lands and rights for use in connection with its existing developments.



## Contracts with The Hydro-Electric Power Commission of Ontario

The Company delivers power to The Hydro-Electric Power Commission of Ontario under three contracts, the two more important of which were entered into in 1926 and 1927 respectively. The two last mentioned contracts were affected by certain legislation enacted by the Legislative Assembly of the Province of Ontario in 1935, and from December 1, 1935 until December 1, 1937 deliveries of power were made under two short-term contracts (referred to as the 1935 contracts). The 1935 contracts provided for smaller amounts of power to be taken initially and at lower prices than in the original contracts.

By Agreements between the Commission and the Company dated December 14, 1937, and effective December 1, 1937, the respective claims of the Commission and the Company arising prior to December 1, 1937, under the original contracts were mutually released, the 1935 contracts were supplanted and the original contracts were amended and their respective terms extended to 1970. The agreements of December 14, 1937, were ratified by the Legislative Assembly of the Province of Ontario in the year 1938 (1938 2 Geo. VI., Cap. 27). The lower prices (payable in Canadian Funds exclusively) established by the short-term 1935 contracts were continued, but definite dates were set by which the Commission is to increase its takings of power from the Company. By November 1, 1939, the Commission is to take the full 320,000 h.p. covered by the 1926 and 1927 contracts. The schedule of increased power takings (Contract Demand), the amounts of power reserved (Immediate Standby and General Reserve), and the respective prices therefor are shown by the following table:

	Contract Demand	Immediate Standby	General Reserve
25-Cycle Contract:			
Price per h.p. year.....	\$12.50	\$10.00	\$1.75
December 1, 1937, to October 31, 1938.....	165,000 h.p.	33,000 h.p.	62,000 h.p.
November 1, 1938, to October 31, 1939.....	200,000 h.p.	33,000 h.p.	27,000 h.p.
November 1, 1939, to November 30, 1970.....	260,000 h.p.	None	None
60-Cycle Contract:			
Price per h.p. year.....	\$12.50	\$10.00	\$1.75
December 1, 1937, to September 30, 1938.....	42,000 h.p.	9,000 h.p.	9,000 h.p.
October 1, 1938, to November 30, 1970.....	60,000 h.p.	None	None

Under the third contract with The Hydro-Electric Power Commission of Ontario, the Company sells to the Commission a minimum of 15,000 h.p. and a maximum of 20,000 h.p. at \$11.00 per h.p. year. This contract, which was made by a predecessor company, is dated December 1913, and has been extended to December 1946.

## Operating Revenue

Over the five years 1933-1937 the operating revenue of the Company and its present subsidiaries was derived from the following sources:—

	1933	1934	1935	1936	1937
Sales to The Hydro-Electric Power Commission of Ontario...	\$4,572,697	\$4,656,061	\$4,555,276	\$3,055,133	\$3,095,266
Sales to other electric systems.....	409,882	437,606	446,613	483,684	523,737
Sales to affiliates (including rental of plant).....	2,824,136	2,777,874	2,868,931	3,153,403	3,406,255
Other power sales.....	840,399	668,284	656,207	681,646	782,622
Domestic and commercial sales.....	582,556	599,195	607,365	635,467	675,644
Municipal lighting sales.....	49,972	50,530	51,019	51,541	52,036
Transportation revenue.....	59,146	64,082	56,470	53,972	57,228
Total operating revenue.....	<u>\$9,338,788</u>	<u>\$9,253,632</u>	<u>\$9,241,881</u>	<u>\$8,114,846</u>	<u>\$8,592,788</u>

## Capitalization

After giving effect to the present financing, the consolidated capitalization as at December 31, 1937, would have been as follows:

	AUTHORIZED Closed (2)	OUTSTANDING \$193,333 (1) \$68,403,500 (3)
5% Property Purchase Obligation.....		
First Mortgage Bonds, 5% Series due 1956 (excluding amount held in treasury)		
Serial and Sinking Fund Debentures:		
3 % Serial Debentures maturing June 1, 1939.....	\$600,000	
3½ % Serial Debentures maturing June 1, 1940.....	\$600,000	
4 % Serial Debentures maturing June 1, 1941.....	\$600,000	
4¼ % Serial Debentures maturing June 1, 1942.....	\$600,000	
4½ % Serial Debentures maturing June 1, 1943.....	\$600,000	
5 % Sinking Fund Debentures maturing June 1, 1949.....	\$10,000,000	\$13,000,000
5% Cumulative Preferred Stock (\$100 par).....		\$12,196,000 (4)
Common Stock (no par value).....	3,000,000 shs. (5)	1,621,960 shs.

(1) Obligation to Town of St. Jerome, Que., payable in annual instalments of \$8,055.55 final payment due March 1, 1962.

(2) The aggregate principal amount of first mortgage bonds issuable in accordance with the trust deed securing them is limited to \$250,000,000 unless such authorized amount is increased by supplemental indenture creating additional lien.

(3) Interest and principal, in the opinion of counsel of the Company in view of existing legislation, is payable in Canadian or United States currency at the holder's option.

(4) 128,040 additional Preferred shares may be created and issued ranking as to capital and dividends and otherwise pari passu with those already outstanding without the necessity of obtaining any vote of the holders of outstanding Preferred shares. Any further increase in such Preferred share capital can be made only by by-law approved by the vote of holders of both Preferred and Common shares. Preferred shares have no vote except in certain contingencies or while cumulative dividends, accruing from January 1, 1938, are in arrears to an aggregate of at least 5%.

(5) Of the authorized but unissued Common shares 100,000 shares will be reserved against exercise of the Stock Subscription Rights to be issued in connection with the 5% Sinking Fund Debentures.

## Purpose of Issue

The Company had outstanding at May 31, 1938 (excluding debentures held in treasury which will be cancelled) \$13,011,500 of the 6% Debentures due in 1941. Such outstanding debentures are to be called for redemption and the entire proceeds from the sale of this issue of Serial and Sinking Fund Debentures, together with all additional funds required, will be paid over to Montreal Trust Company in trust for that purpose. The additional funds required (which include an amount equivalent to the discount at which this issue is being sold by the Company and the premium on the debentures being redeemed) are being paid by the Company out of current cash resources.

## Restrictions on Issue of Securities and Payment of Dividends

This issue of Serial and Sinking Fund Debentures will be limited to \$13,000,000 principal amount. These Debentures will be direct obligations of Gatineau Power Company but will not be secured by any hypothec, mortgage or other charge.

In the Trust Indenture, the Company will, among other things, covenant substantially as follows:—

(a) That the Company will not, save as hereinafter in this paragraph (a) provided, issue any bonds, debentures or other securities (hereinafter in this paragraph sometimes collectively referred to as "new securities") or create or assume any debt, which are or is secured by any hypothec, mortgage, pledge or other charge on or of any property of the Company, or give security for any obligation of the Company by way of hypothec, mortgage, pledge or other charge on or of any of said property without thereby or contemporaneously likewise securing the principal and interest of all the Debentures then outstanding hereunder, equally and ratably with such new securities or debt or other obligation, by the same hypothec, mortgage, pledge or other charge;

Provided that the Company may at any time and from time to time, without compliance with the foregoing provisions or the provisions of the next paragraph (b), issue, create, assume or secure, as the case may be:



(i) Any additional First Mortgage Bonds under and in accordance with the provisions of the Trust Deed of Hypothec, Mortgage and Pledge executed by the Company under formal date of June 1, 1926, to The Royal Trust Company, as Trustee, and of any indentures supplemental thereto, heretofore or hereafter executed (hereinafter sometimes collectively referred to as the "Existing First Mortgage Trust Deed"); and

(ii) Any new securities or debt or other obligation up to a principal amount equivalent to that of First Mortgage Bonds (after deducting all those which have at any time been retired through the operation of the sinking fund) at any time previously outstanding under the Existing First Mortgage Trust Deed (whether or not such Trust Deed be then in effect) as to which the Company's obligations have been discharged; provided that the Company's rights under this sub-paragraph (ii) may not be exercised at any time, in respect of any First Mortgage Bonds which have been used, under the provisions of this paragraph (a), as a basis for the issue, creation, assumption or securing of any new securities, debt or obligations; and

(iii) After the discharge of said Existing First Mortgage Trust Deed (and in addition to new securities, debt or other obligations which may be issued, created, assumed or secured pursuant to the provisions of the next preceding sub-paragraph (ii) any new securities or debt or other obligations up to a principal amount equivalent to that of the First Mortgage Bonds which would, at the time and under the then existing circumstances, be permitted to be outstanding under the Existing First Mortgage Trust Deed, if such deed were then in effect; and

(iv) Any purchase money obligation in respect of property acquired by the Company after January 1, 1938, and any obligation secured upon any such property at the time of its acquisition by the Company; and

(v) Any obligation falling into the category of a public or statutory debt or obligation or given or required to be given in respect of any legal proceedings or in respect of or in relation to any lease, license, franchise or other right which the Company desires to obtain or has obtained from any government, department, municipality or other public body; and

(vi) Any obligation in respect of taxes or assessments or similar charge or impost which the Company desires to contest or is contesting; and

(vii) Any obligation resulting from a loan or advance (not being a "funded debt" as hereinafter in paragraph (b) defined) obtained by the Company in the ordinary course of business; and

(viii) Any new securities, debt or other obligations issued, created, assumed or secured, as the case may be, in substitution for or in replacement of any of those issued, created, assumed or secured in accordance with and as permitted by the provisions of the foregoing sub-paragraphs (i) to (vii) both inclusive, but the aggregate principal amount thereof shall not exceed the aggregate principal amount of the new securities, debt or other obligations in respect whereof the substitution or replacement is made.

(b) That the Company will not, save as hereinafter in this paragraph (b) provided, or permitted, issue, create or assume any "funded debt," as hereinafter defined, unless the Company's "available income," as hereinafter defined, for the "income period," as also hereinafter defined, shall amount to not less than one and one-half times the Company's annual interest charges on all interest bearing obligations of the Company to be outstanding after the issue, creation or assumption of such funded debt.

Provided that, notwithstanding anything hereinbefore in this paragraph (b) contained, the Company may at any time and from time to time issue, create or assume any funded debt of the Company falling within the categories of obligations referred to in sub-paragraphs (i) to (vi) inclusive and sub-paragraph (viii) of paragraph (a) above and any funded debt for the purpose of refunding, replacing or obtaining money to pay any then existing obligation secured by hypothec, mortgage, pledge or charge on or of any property of the Company or any then existing funded debt.

Provided, further, that for purposes of the foregoing, the Company's "available income" may, at the option of the Company, be determined on a consolidated instead of a corporate basis, in which case the same shall be determined in accordance with accepted accounting practice and on the general basis disclosed in the definition hereinafter given of corporate "available income," in which connection (but without purporting by this specific mention to derogate from the generality of the foregoing) there shall be included among the deductions from total revenues of the Company and its subsidiaries the annual dividend requirements on preferred stocks, if any, of any subsidiary of the Company not owned by the Company or any subsidiary of the Company.

For the purposes of this paragraph, the following terms shall have the following meanings respectively:—

(i) "funded debt" means any money indebtedness of the Company of a character not ordinarily considered as a current loan and represented by an instrument or instruments the date or dates of stated maturity whereof is or are respectively more than one year after the date in respect of which the calculation or computation is being made;

(ii) "available income" means a sum arrived at by the following computations: From the total of the revenues of the Company from all sources there shall be deducted all operating expenses including therein reasonable and proper charges for current repairs and maintenance of its plants and properties (but not any charges for depreciation or for amortization of expenditures for storage works or for amortization of debt discount or expense), rentals, royalties under water power leases, royalties and operation and maintenance charges under water storage agreements, taxes (other than income and profits taxes) and insurance;

(iii) "income period" means any period of twelve calendar months terminating not more than four calendar months prior to the time of issue, creation or assumption of any funded debt.

(c) That the Company will not, save as hereinafter provided, pay dividends (other than dividends paid in stock of the Company, in respect of which there is no limitation) in any quarterly period on any shares of capital stock to an amount exceeding the amount of the "Net Available for Dividends," as hereinafter defined, applicable to such quarterly period.

The amount of the "Net Available for Dividends" applicable to any quarterly period shall be a sum equal to one quarter of the difference between (A) the amount of the Company's "available income" (as hereinbefore in paragraph (b) defined) for a period of twelve calendar months (ending not more than four calendar months prior to the beginning of such quarterly period); and (B) the sum of the following amounts, namely: (a) the amounts provided by the Company for income and profits taxes in respect of such twelve months period, and (b) the annual interest charges on all obligations of the Company outstanding at the beginning of such quarterly period, and (c) the amount by which the Company is obligated during the twelve months period following the beginning of such quarterly period to reduce such obligations, exclusive of such of said obligations as the Company may be obliged to or will redeem, retire or pay (i) out of or with the proceeds of any issue of bonds, debentures or other securities or debt or other obligations, permitted to be issued or created under the provisions of said Trust Indenture, (ii) out of or with the proceeds of any issue of shares of the Company, and such of said obligations for the redemption, retirement or payment of which no expenditure of cash will be made during said last-mentioned twelve months period.

Provided, however, that, if in any quarterly period subsequent to January 1, 1938, in which, according to the foregoing provisions of this paragraph (c), dividends could have been paid, the Company either pays no dividends or pays in dividends (other than stock dividends) an amount (excluding any dividends paid pursuant to the following provisions of this paragraph (c) less than the amount of the Net Available for Dividends applicable to such quarterly period, then the following provisions shall apply to the subsequent payment in dividends of the amount which could so have been paid in dividends but was not (which amount is hereinafter referred to as a "Quarterly Dividend Credit"), namely:—

There may be paid in dividends, at any time during the twelve months next following the date of termination of the quarterly period in which such Quarterly Dividend Credit came into being, (in addition to any other amount, if any, which the Company is then permitted to pay under this paragraph (c) and which the Company then desires to pay), an amount not greater than the amount of such Quarterly Dividend Credit; but, if or to the extent that the full amount so payable in respect of such Quarterly Dividend Credit is not paid in dividends during said twelve months period, then an amount equivalent thereto or to the remainder thereof, as the case may be, may thereafter be paid in dividends (in addition to any other amount, if any, which the Company is then permitted to pay under this paragraph (c) and which the Company then desires to pay) but not at a rate per twelve months period in excess of 25% of such amount.

A "quarterly period" means, for purposes of this paragraph (c), a period of three months ending on March 31, June 30, September 30 or December 31.

The Trust Deed securing the Company's First Mortgage Bonds provides that additional Bonds, either of the 5% Series due 1956 or of other series, having such rates of interest, maturity dates and other provisions as the Board of Directors of the Company may determine and as are permitted by the Trust Deed, may be issued as follows (a) for the purpose of refunding an equal principal amount of Bonds of any series outstanding under the Trust Deed, or (b) for not more than 75% of the cost or value of additional property or construction as defined in the Trust Deed including securities of other corporations engaged in supplying or transmitting electric power, but only when net earnings (as defined in the Trust Deed) for twelve consecutive months out of the fifteen months immediately preceding application for issue (together with 80% of estimated future net earnings from contracts as defined in the Trust Deed) shall have been at least equal to twice the annual interest requirements on all First Mortgage Bonds issued and outstanding including those proposed to be issued. No additional Bonds may be issued on the basis of additional property subject to prior liens if thereupon the aggregate principal amount of such prior liens would exceed 25% of the aggregate principal amount of Bonds then issued and outstanding. Not more than 15% of the aggregate amount of Bonds issued under the Trust Deed other than for refunding may be issued in connection with the acquisition of securities of such other corporations; and then only upon the pledge of all the first mortgage bonds of such other corporations, which shall be at least equal in face amount to the Bonds so issued; and the Bonds so issued shall at their face amount not exceed 75% of the value of the property of such other corporations.

### Earnings

On September 1, 1937, a plan of amalgamation became effective, under which the assets and liabilities of Canadian Hydro-Electric Corporation Limited were taken over by Gatineau Power Company and holders of the shares of Canadian Hydro-Electric Corporation Limited received in exchange preferred and common shares of capital stock of Gatineau Power Company.



The earnings shown in the report by the Company's auditors given below, have been adjusted to give effect to the aforementioned amalgamation for the entire five years.

Messrs. P. S. Ross & Sons, Chartered Accountants, report as follows:

"Gatineau Power Company,  
Montreal, Que.

We have made an examination of the statement of consolidated earnings of Gatineau Power Company and its subsidiary companies for the five years ended December 31, 1937, and of Canadian Hydro-Electric Corporation Limited and its subsidiary companies for the four years and eight months ended August 31, 1937, and have received all the information and explanations required by us. In connection therewith we have examined or tested the books of account of the companies and other supporting evidence. We also made a general review of the accounting methods and of the operating and income accounts for the above periods, but we did not make a detailed audit of the transactions.

In our opinion, based on such examination and subject to the adequacy of the provision for depreciation charged to revenue as determined by the management, we report that after giving effect for the entire five-year period to the amalgamation of Canadian Hydro-Electric Corporation Limited with Gatineau Power Company, which became effective September 1, 1937, and subject to the explanatory footnotes, which are an integral part of this report, earnings were as shown in the tabulation following. No effect has been given to the net reduction in interest and amortization charges on debentures due to the proposed financing.

	Year ended December 31, 1933	Year ended December 31, 1934	Year ended December 31, 1935	Year ended December 31, 1936	Year ended December 31, 1937
Consolidated net earnings before interest, depreciation and taxes.....	\$8,231,647.23	\$8,233,186.59	\$8,210,365.66	\$7,098,920.86	\$7,566,377.10
Provision for taxes, including income taxes....	367,194.95	347,049.29	323,983.58	352,873.33	381,235.20(2)
	<u>7,864,452.28</u>	<u>7,886,137.30</u>	<u>7,886,382.08</u>	<u>6,746,047.53</u>	<u>7,185,141.90</u>
Interest on first mortgage bonds and prior liens..	3,521,383.49	3,504,348.29	3,478,644.24	3,455,524.53	3,437,457.55
	<u>4,343,068.79</u>	<u>4,381,789.01</u>	<u>4,407,737.84</u>	<u>3,290,523.00</u>	<u>3,747,684.35</u>
Interest on 6% Debentures.....	1,090,913.35	1,068,063.33	1,040,466.50	971,384.55	862,214.78
Other interest.....	15,827.65	14,392.44	10,279.85	14,791.68	6,798.90
	<u>1,106,741.00</u>	<u>1,082,455.77</u>	<u>1,050,746.35</u>	<u>986,176.23</u>	<u>869,013.68</u>
Balance.....	<u>3,236,327.79</u>	<u>3,299,333.24</u>	<u>3,356,991.49</u>	<u>2,304,346.77</u>	<u>2,878,670.67</u>
Provision for depreciation charged against operations (1).....	648,861.46	650,320.70	654,150.00	654,791.15	663,736.44
Amortization of discount and expense.....	352,000.37	354,173.01	349,616.20	345,010.44	341,482.16
	<u>1,000,861.83</u>	<u>1,004,493.71</u>	<u>1,003,766.20</u>	<u>999,801.59</u>	<u>1,005,218.60</u>
Balance available for dividends.....	<u>\$2,235,465.96</u>	<u>\$2,294,839.53</u>	<u>\$2,353,225.29</u>	<u>\$1,304,545.18</u>	<u>\$1,873,452.07 (2)</u>

(1) The companies follow the policy of charging to maintenance expense accounts, as incurred, the costs of current repairs and minor replacements of plants and properties, and in addition the costs of replacements, which, in the opinion of the management, do not represent an increase or improvement in plant capacity or serviceability.

The provisions for depreciation as charged against revenue have been determined by the management on the basis of percentage of gross operating revenue less rental of plant to an affiliate plus an amount for amortization of storage works on an annuity basis.

Additional provisions for depreciation (\$1,750,000.00 for each of the years 1937, 1936 and 1935, and \$1,812,750.00 for each of the years 1934 and 1933) in excess of the amounts charged against revenue in accordance with the depreciation policy expressed above, have been charged directly to paid-in surplus account of Gatineau Power Company.

(2) Provision has not been made for taxes imposed by the Province of New Brunswick under Act of 1938, II. George VI., Chapter 18, which was proclaimed on April 27, 1938.

Montreal, Que., June 14, 1938.

P. S. ROSS & SONS,  
Chartered Accountants."

Annual interest requirements on the funded debt to be outstanding on completion of this financing will be as follows:

First Mortgage Bonds and prior liens.....	\$3,419,667	
(assuming the currencies of Canada and the United States of America at parity)		
Debentures now being issued.....	614,000	<u>\$4,033,667</u>

Earnings for the years 1933, 1934 and 1935 reflect income from deliveries of larger amounts of power to The Hydro-Electric Power Commission of Ontario than were delivered in the years 1936 and 1937 and at higher prices. Based on the earnings and the depreciation charged against operations for the year 1937, as shown in the above Auditors' Report, such total interest requirements would have been covered:

Before depreciation.....	1.8 times
After depreciation.....	1.6 times

For the three months ended March 31, 1938, consolidated net earnings, before interest and depreciation were \$1,807,720 as against a comparable figure of \$1,773,429 for the three months ended March 31, 1937.

As shown below, the amount charged to earnings in the year 1937 for depreciation and amortization of discount and expense was in excess of the annual requirements for sinking funds and serial maturities on funded debt to be outstanding on completion of this financing:

Provision for depreciation charged against operations.....	\$663,736	
Amortization of discount and expense.....	341,482	<u>\$1,005,218</u>
Annual instalments and sinking fund payments on First Mortgage Bonds and prior liens now outstanding.....	\$362,766	
(assuming the currencies of Canada and the United States of America at parity)		
Annual serial and/or sinking fund payments on debentures now being issued..	600,000	<u>\$962,766</u>

For the year ended December 31, 1937, the balance available for dividends as shown in the above Auditors' Report, would have amounted to \$1,873,452. This would have been sufficient to cover the full annual dividend requirement on outstanding 5% Cumulative Preferred Shares and leave a balance of \$1,263,652 equivalent to 77c a share on 1,621,960 outstanding shares of common stock.

The contracts of the Company with The Hydro-Electric Power Commission of Ontario provide for increasing deliveries of primary power in the Fall of 1938 and again in the Fall of 1939 when they reach their maximum. As deliveries of primary power are so increased, the amounts of surplus power sold at low rates correspondingly decrease.

The net improvement in operating revenue resulting from the increased deliveries scheduled under contracts with The Hydro-Electric Power Commission of Ontario in the years 1938, 1939 and 1940 is estimated as follows:

	For the Year	Compared with 1937
1938.....	\$221,000	\$221,000
1939.....	247,000	468,000
1940.....	121,000	589,000



# Gatineau Power Company

## and Subsidiary Companies

### PRO-FORMA

#### CONSOLIDATED BALANCE SHEET—DECEMBER 31, 1937

Adjusted, as stated in the accompanying Auditors' Certificate on page 7, to reflect consummation of the proposed sale of \$13,000,000 par value Serial and Sinking Fund Debentures, the redemption of \$7,862,000 par value 6% Sinking Fund Debentures, due 1941 and of \$5,745,500 par value 6% Debentures, Series "B", due 1941, and the cancellation of all Debentures purchased and held in treasury.

#### ASSETS

##### Capital Assets:

Plants and properties; development costs; water power and storage rights and intangibles (see note 2).....		\$131,512,251.70
Investments:		
Securities (at cost) on deposit with Provincial Government.....	\$ 44,206.00	
Other security investments at cost (in part from affiliates).....	2,444,335.30	
		2,488,541.30
Total.....		\$134,000,793.00

##### Current Assets:

Cash.....	\$548,405.51	
Marketable securities at cost (Dominion of Canada bonds—quoted value \$149,250.00).....	149,250.00	
Accounts receivable:		
From affiliated companies for December sales of power and other charges, paid in 1938.....	\$282,555.82	
From others (less reserves of \$75,175.50).....	479,554.78	
		762,110.60
Inventories of materials, supplies and merchandise (as determined and certified by the management and valued at cost or less).....	185,484.91	
		1,645,251.02

##### Deferred Assets and Expenses:

Cash on deposit with trustee.....	15,000.00	
Accounts receivable not currently due.....	64,781.18	
Prepaid insurance and taxes.....	104,724.48	
Deferred assets and charges applicable to future operations.....	141,163.10	
Organization expenses.....	13,113.57	
Unamortized debt discount and expense (see note 3).....	5,813,737.57	
		6,152,519.90
		<u>\$141,798,563.92</u>

#### LIABILITIES

##### Funded Debt (see note 5):

First Mortgage Sinking Fund Bonds, 5% Series, due 1956.....	\$68,571,000.00	
Less: Purchased and held in treasury.....	167,500.00	
		\$68,403,500.00
Serial and Sinking Fund Debentures, Series "A":		
3% Serial Debentures, due 1939.....	600,000.00	
3½% Serial Debentures, due 1940.....	600,000.00	
4% Serial Debentures, due 1941.....	600,000.00	
4¼% Serial Debentures, due 1942.....	600,000.00	
4½% Serial Debentures, due 1943.....	600,000.00	
5% Sinking Fund Debentures, due 1949.....	10,000,000.00**	
		13,000,000.00
Property purchase obligation.....		193,333.40
Total.....		\$81,596,833.40

##### Current Liabilities:

Accounts payable.....	48,140.80	
Customers' deposits.....	36,715.71	
Accrued payrolls and expenses.....	117,564.81	
Accrued taxes.....	167,341.62	
Accrued interest.....	293,837.72	
Property purchase obligation due in 1938.....	8,055.55	
Serial obligation due in 1938.....	34,555.55	
		706,211.76

##### Reserves:

Depreciation and amortization (see note 6).....	14,964,691.56	
Other reserves.....	7,664.24	
		14,972,355.80

##### Capital Stock and Surplus:

	Shares Authorized	Shares Issued	
5% Cumulative Preferred \$100 par.....	121,960	121,960*	12,196,000.00
Common, without nominal or par value.....	3,000,000***	1,621,960	25,021,696.96
Surplus:			
Paid-in.....			2,218,724.88
Earned.....			5,086,741.12
			44,523,162.96

\*Redeemable at any time on 60 days' notice. Dividends cumulative from January 1, 1938.

\*\*Subscription rights expiring December 31, 1942, to be issued in connection with these Sinking Fund Debentures entitling the holder to purchase at \$10.00 per share fully paid common shares on the basis of 10 such shares in respect of each \$1,000.00 debenture.

\*\*\*100,000 shares of the unissued common stock to be reserved for the exercise of subscription rights to be issued in connection with the Sinking Fund Debentures.

\$141,798,563.92

The explanatory notes on page 7 are an integral part of the above statement.

This is the balance sheet referred to in our Certificate of June 14, 1938.

P. S. ROSS & SONS,  
Chartered Accountants.

Montreal, Que., June 14, 1938.



## Explanatory Notes to Pro Forma Consolidated Balance Sheet

### 1. Basis of Consolidation:

The accounts at December 31, 1937, of all subsidiary companies of Gatineau Power Company are included in the accompanying consolidated balance sheet. All subsidiaries of Gatineau Power Company are wholly owned.

All inter-company accounts between subsidiary companies and Gatineau Power Company have been eliminated in the accompanying consolidated balance sheet.

### 2. Plants and Properties; Development Costs; Water Power and Storage Rights and Intangibles:

Plants and properties; development costs; water power and storage rights and intangibles are stated at cost of construction or acquisition, in part from affiliates, to Gatineau Power Company and its subsidiaries on the basis of cash paid or par or stated value of capital stocks issue therefor, including \$50,160.99 by which the book investment in shares of a subsidiary company exceeds the net assets applicable to such shares as shown by the books of the subsidiary. Among acquisitions from affiliates are certain properties acquired in 1927 from Canadian Hydro-Electric Corporation Limited, by Gatineau Power Company and a company which is now a subsidiary; the aggregate purchase price was \$5,190,357.83 in excess of the cost of the properties to Canadian Hydro-Electric Corporation Limited.

Includes cost of construction of storage works which upon completion became the property of the Government of the Province of Quebec, but which are operated by the Government under long term contracts with Gatineau Power Company for regulation of the Gatineau River for the benefit of plants of Gatineau Power Company. The cost of these storage works is being amortized on an annuity basis over the life of contracts relating thereto.

### 3. Unamortized Debt Discount and Expense:

The Company follows the policy of amortizing bond and debenture discount and expense by charges to profit and loss over the life of the issues to which they apply.

### 4. Contingent Liabilities:

The management report pending claims for damages, etc., aggregating approximately \$350,000.00.

### 5. Gold Obligations:

The obligation expressed in bonds to make payment in Canadian or United States gold coin is shown at face amount.

### 6. Maintenance and Depreciation Policy:

The companies follow the policy of charging to maintenance expense accounts, as incurred, the costs of current repairs and minor replacements of plants and properties, and in addition the costs of replacements, which, in the opinion of the management, do not represent an increase or improvement in plant capacity or serviceability.

The annual provisions for depreciation as charged against revenue have been determined by the management on the basis of percentage of gross operating revenue less rental of plant to an affiliate, plus an amount for amortization of storage works on an annuity basis.

Additional provisions for depreciation (\$1,750,000.00 for each of the years 1937, 1936 and 1935, and \$1,812,750.00 for each of the years 1934 and 1933) in excess of the amounts charged against revenue in accordance with the depreciation policy expressed above, have been charged directly to paid-in surplus account of Gatineau Power Company.

### 7. Paid in Surplus:

The amount of \$2,218,724.88 at December 31, 1937, represents the balance of \$13,094,224.88 arising in 1931 from cancellation of an equivalent amount of indebtedness to the then parent company, after deducting therefrom additional depreciation in the years 1933 to 1937 (described above) amounting to \$8,875,500 and after a charge in 1937 of \$2,000,000 representing the write down of an investment in capital stock of a subsidiary by the amount by which the book investment therein exceeded the net assets of the subsidiary.

### 8. Foreign Exchange:

In the accompanying consolidated balance sheet all figures have been stated at parity of exchange without adjustment of difference between Canadian and United States funds. It is the practice of the companies to reflect in current operations any differences between this rate and current quotations at the time funds are actually purchased or transferred.

Gatineau Power Company,  
Montreal, Quebec.

## Auditors' Certificate

We have made an examination of the accompanying pro forma consolidated balance sheet of Gatineau Power Company and its Subsidiary Companies as at December 31, 1937, and have received all the information and explanations required by us. In connection therewith, we have examined or tested the books of account of the companies and other supporting evidence and have made a general review of the accounting methods of the companies but we did not make a detailed audit of the transactions.

In our opinion, based on such examination and subject to the adequacy of the provision for depreciation, as determined by the management, the accompanying pro forma consolidated balance sheet is, according to the best of our information and the explanations given to us, properly drawn up so as to exhibit a true and correct view of the consolidated financial position of Gatineau Power Company and its Subsidiary Companies as at December 31, 1937, if at that date effect had been given to—

1. The redemption and cancellation of all outstanding 6% Sinking Fund Gold Debentures, due June 15, 1941, and of all outstanding 6% Gold Debentures Series "B", due April 1, 1941.

2. The issue of \$3,000,000 par value Serial Debentures, bearing various interest rates, maturing \$600,000 annually from June 1, 1939 to June 1, 1943, inclusive, and of \$10,000,000 par value 5% Sinking Fund Debentures maturing June 1, 1949, with subscription rights attached, expiring December 31, 1942, entitling the holder to purchase at \$10.00 per share fully paid common shares on the basis of 10 such shares in respect of each \$1,000 debenture.

P. S. ROSS & SONS,  
Chartered Accountants.

Montreal, Que., June 14, 1938.

## Corporate Affiliations

Of the outstanding Common shares of Gatineau Power Company 88.7% are owned by International Hydro-Electric System. All of the Class "B" stock of International Hydro-Electric System is owned by International Paper Company, and all of its Common Stock is owned by International Paper and Power Company. Canadian International Paper Company and New Brunswick International Paper Company, which are important customers of Gatineau Power Company, are subsidiaries of International Paper and Power Company.

## Management

The officers and directors of Gatineau Power Company are as follows:

### OFFICERS

President . . . . .	G. GORDON GALE
Vice-President . . . . .	IRWIN L. MOORE
Treasurer . . . . .	H. R. WEAVER
Secretary . . . . .	JOHN R. BINKS

### DIRECTORS

JOHN R. BINKS	G. GORDON GALE	LOUIS S. ST. LAURENT, K.C.
A. C. BRITTAIN	W. FRASER HADLEY	C. N. SIMPSON
VICTOR M. DRURY	IRWIN L. MOORE	ARTHUR F. WHITE
	E. B. NORCROSS	

Mr. White is President of The Dominion Securities Corporation, Limited, which firm is participating in the purchase and sale of the Serial and Sinking Fund Debentures. Messrs. Drury, Gale, Moore, Norcross and White are directors of International Hydro-Electric System.

## Authorizations

Authority has been obtained by the Company for the making of this issue of Serial and Sinking Fund Debentures from the Lieutenant-Governor in Council of the Province of Quebec in conformity with and subject to the Statute 1 Edward VIII. (Second Session), Chapter 31, and it is a condition thereof that such authorization does not import any direct or indirect warranty on the part of the Province of Quebec or of its government and does not in any way involve the responsibility of the said Province or government as to the value of the Debentures.

The issue of the Debentures and Stock Subscription Rights has been authorized by an order of the Provincial Electricity Board. The Order specified that it is not to be construed as a certificate on the part of the Board of the value of or title to the assets of the Company or as guaranteeing in any manner the obligations of the Company.

June 14, 1938.



